

LAW OFFICES OF

KECK, MAHIN & CATE

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

8300 SEARS TOWER

233 SOUTH WACKER DRIVE

CHICAGO, ILLINOIS 60606-6588

(312) 876-3400

100 OFFICE OF
THE SECRETARY

JAN 13 12 23 PM '87

MOTOR OPERATING UNIT

CABLE ADDRESS
"HAMSCOTT"

TELEX
25-3411

TELECOPIER
(312) 876-3582

FILE NUMBER

DIRECT DIAL

RECORDATION NO. 1 5150 Filed & Recorded

JAN 13 1987 12-30 PM

INTERSTATE COMMERCE COMMISSION

January 12, 1987

WASHINGTON OFFICE:

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PEORIA OFFICE:

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PEORIA, ILLINOIS 61602-8866
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OAK BROOK OFFICE:

OAK BROOK REGENCY TOWERS
SUITE 850
1415 WEST 22ND STREET
OAK BROOK, ILLINOIS 60521-2008
(312) 954-2100

7-013A012

No.

JAN 13 1987

Date

Fee \$ 10.00

Ms. Noreta R. McGee, Secretary
Interstate Commerce Commission
12th Street & Constitution Avenue, N.W.
Washington, D.C. 20423

Dear Ms. McGee:

Washington, D. C.

Enclosed are the original, two counterparts and two copies of the document described below to be recorded pursuant to Section 11303 of Title 49 of the United States Code.

This document is a Security Agreement, a primary document, dated January 2, 1987, and executed by Dakota, Minnesota & Eastern Railroad Corporation for the benefit of First Illinois Bank of Evanston, N.A. The names and addresses of the parties to the document are as follows:

Secured Party:

First Illinois Bank of
Evanston, N.A.
800 Davis Street
Evanston, Illinois 60204

Debtor:

Dakota, Minnesota & Eastern
Railroad Corporation
337 22nd Avenue South
Brookings, South Dakota 57006

The equipment consists of 17 used SD-10 Locomotives identified by the builders numbers, unit numbers and dates built listed on Exhibit A to the Security Agreement. For your convenience, a copy of Exhibit A is attached to this letter.

A fee of \$10.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to the person presenting this letter with the enclosures.

A short summary of the documents to appear in the index is as follows:

Thomas Telus
with K, M & C

KECK, MAHIN & CATE

Ms. Noreta R. McGee
January 12, 1987
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Security Agreement between First Illinois Bank of
Evanston, N.A., 800 Davis Street, Evanston, Illinois
60204 and Dakota, Minnesota & Eastern Railroad
Corporation, 337 22nd Avenue South, Brookings, South
Dakota 57006 dated January 2, 1987 and covering 17
locomotives.

Very truly yours.

A handwritten signature in black ink, appearing to read "William L. Rawson", written in a cursive style.

William L. Rawson

Counsel for First Illinois Bank
of Evanston, N.A.

(903/0)

JAN 13 1987 12-30 PM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

THIS SECURITY AGREEMENT is made as of the 2nd day of January, 1987, by DAKOTA, MINNESOTA & EASTERN RAILROAD CORPORATION ("Debtor"), a Delaware corporation, with its principal place of business located at 337 22nd Avenue South, Brookings, South Dakota 57006, for the benefit of FIRST ILLINOIS BANK OF EVANSTON, N.A. ("Secured Party"), a national banking association with an office located at 800 Davis Street, Evanston, Illinois 60204.

WITNESSETH:

WHEREAS, Debtor has entered into a Loan and Security Agreement with Secured Party dated as of September 3, 1986 (the "Loan Agreement") pursuant to which Secured Party has agreed to make certain loans and advances to Debtor in accordance with the terms and provisions contained therein;

WHEREAS, Debtor has issued to Secured Party its promissory note of even date herewith payable as provided therein and in the Loan Agreement (the "Notes").

NOW THEREFORE, in consideration of the terms and conditions contained herein and in the Loan Agreement, and of any extension of credit heretofore, now or hereafter made by Secured Party to Debtor, Debtor agrees as follows:

1. CREATION OF SECURITY INTEREST; COLLATERAL. For value received, Debtor, hereby grants to Secured Party a security interest in the locomotives, rolling stock and equipment described on Exhibit A attached hereto and made a part hereof and all accessions to, substitutions for and all replacements, products and proceeds of the foregoing, including without limitation proceeds of insurance policies insuring the foregoing (collectively, the "Collateral").

2. OBLIGATIONS. The security interest granted hereby is given to secure the payment of the Notes and any and all other "Liabilities" (as defined in the Loan Agreement).

3. WARRANTIES. Debtor represents and warrants as follows: (a) Debtor is duly organized and existing under the laws of State of Delaware and is duly qualified and in good standing in each jurisdiction in which the failure to be so qualified would have a material adverse effect on Debtor; (b) the execution, delivery and performance hereof are within Debtor's corporate powers, have been duly authorized, are not in contravention of law or the terms of Debtor's certificate of incorporation, bylaws or of any indenture, agreement or undertaking to which Debtor is party or by which it is bound; (c) except for the security interest granted hereby Debtor is, or, as to Collateral to be acquired

after the date hereof, will be, the owner of the Collateral free from any adverse lien, security interest or encumbrance; and Debtor agrees that it will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein.

4. INSPECTION OF COLLATERAL AND RECORDS. Debtor shall at all reasonable times and from time to time allow Secured Party, by or through any of its officers, agents, attorneys or accountants, to examine and inspect the Collateral and to examine and inspect and make extracts from Debtor's books and records.

5. MAINTENANCE OF COLLATERAL. Debtor will maintain or cause to be maintained in good repair, working order and condition for its intended purpose all of the Collateral and will make or cause to be made all appropriate repairs, renewals and replacements thereof.

6. FURTHER ASSURANCE. Debtor shall do, make, execute and deliver all such additional and further acts, things, deeds, assurances and instruments as Secured Party may require, to more completely vest in and assure to Secured Party its rights hereunder and in or to the Collateral.

7. PRESERVATION AND DISPOSITION OF COLLATERAL. Debtor will keep the Collateral free from any adverse lien, security interest, or encumbrance.

8. EVENTS OF DEFAULT. Debtor shall be in default under this Agreement upon the happening of any of the following events or conditions: (a) Debtor fails to pay the principal of or interest on the Notes or any other of the Liabilities when due and payable or declared due and payable; or (b) an Event of Default occurs under the Loan Agreement.

9. ACCELERATION; RIGHTS AND REMEDIES ON DEFAULT. Upon the occurrence of any such event of default, and at any time thereafter, Secured Party may declare all obligations secured hereby immediately due and payable, and shall have the rights and remedies of a secured party under the Uniform Commercial Code, in addition to the rights and remedies provided herein, in the Loan Agreement or in any other agreement by and between Debtor and Secured Party. Debtor shall pay to Secured Party on demand any and all expenses, including legal expenses and reasonable attorneys' fees, incurred or paid by Secured Party in protecting or enforcing the obligations and other rights of Secured Party hereunder, and such expenses shall be one of the obligations hereby secured.

10. ADDITIONAL SECURITY. Any and all instruments, documents, policies and certificates of insurance, securities, goods, accounts receivable, choses in action, chattel paper, cash, property and the proceeds thereof (whether or not the same are Collateral hereunder) owned by Debtor or in which Debtor has

an interest, which now or hereafter are at any time in the possession or control of Secured Party, shall constitute additional security for the obligations hereby secured and may be applied at any time to said obligations which are then due whether by acceleration or otherwise.

11. GENERAL. Secured Party shall not be deemed to have waived any of its rights hereunder or under any other agreement, instrument or paper signed by Debtor unless such waiver be in writing and signed by Secured Party. No delay or omission on the part of Secured Party in exercising any right shall operate as a waiver of such right or any other right. A waiver on one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. All of Secured Party's rights and remedies, whether evidenced hereby or by any other agreement, instrument or paper, shall be cumulative and may be exercised singularly or concurrently. All rights of Secured Party hereunder shall inure to the benefit of its successors and assigns; and all obligations of Debtor shall bind its successors and assigns. The unenforceability or invalidity of any one or more provisions, clauses or sentences hereof shall not render any other provision, clause or sentence herein contained unenforceable or invalid. This Agreement and all rights and obligations hereunder, including matters of construction, validity and performance, shall be governed by the law of the State of Illinois. This Agreement shall constitute an "Other Agreement" as defined in the Loan Agreement.

IN WITNESS WHEREOF, Debtor has caused this Agreement to be executed by its duly authorized representatives as of the day and year first above written.

DAKOTA, MINNESOTA & EASTERN RAILROAD
CORPORATION

By: _____

Title: President

Attest: _____

By: _____

Title: Asst. Secretary

(Affix Corporate Seal)

(879/EE)

EXHIBIT A

<u>Desscription</u>	<u>Builders #</u>	<u>Current Unit #</u>	<u>Prior Unit #</u>	<u>Original Unit #</u>	<u>Date Built</u>
SD-10 Locomotive	18309	544 (renumbered 3/19/74)	523 (renumbered 4/4/58)	2223	10/23/53
SD-10 Locomotive	18307	545 (renumbered 10/18/74)	521 (renumbered 9/22/59)	2221	10/20/53
SD-10 Locomotive	15618	546 (renumbered 12/9/74)	504 (renumbered 7/30/59)	2204	4/30/52
SD-10 Locomotive	15619	547 (renumbered 11/20/74)	507 (renumbered 7/27/59)	2207	6/9/52
SD-10 Locomotive	15615	548 (renumbered 3/31/74)	503 (renumbered 8/19/59)	2203	4/29/52
SD-10 Locomotive	15622	549 (renumbered 4/18/74)	510 (renumbered 4/4/58)	2210	8/12/52
SD-10 Locomotive	18303	550 (renumbered 5/3/74)	517 (renumbered No Date)	2217	10/14/53
SD-10 Locomotive	18773	551 (renumbered 6/24/74)	534 (renumbered 8/26/59)	2228	1/20/54
SD-10 Locomotive	15619	552 (renumbered 6/1/74)	506 (renumbered 9/28/59)	2207	6/9/52
SD-10 Locomotive	15617	553 (renumbered 7/3/74)	505 (renumbered 7/26/59)	2205	5/6/52
SD-10 Locomotive	18774	554 (renumbered 10/3/74)	535 (renumbered 6/4/59)	2229	1/23/54
SD-10 Locomotive	15623	555 (renumbered 9/24/74)	511 (renumbered 7/13/59)	2211	8/15/52

<u>Desscription</u>	<u>Builders #</u>	<u>Current Unit #</u>	<u>Prior Unit #</u>	<u>Original Unit #</u>	<u>Date Built</u>
SD-10 Locomotive	15614	556 (renumbered 9/6/74)	502 (renumbered 7/25/59)	2202	4/28/52
SD-10 Locomotive	18775	557 (renumbered 8/22/74)	536 (renumbered 9/13/59)	2230	1/26/54
SD-10 Locomotive	15620	558 (renumbered 8/12/74)	508 (renumbered 8/30/59)	2208	6/12/52
SD-10 Locomotive	15612	559 (renumbered 7/17/74)	500 (renumbered 7/30/59)	2200	4/25/52
SD-10 Locomotive	16943	560 (renumbered 5/28/74)	514 (renumbered 7/10/59)	2214	6/23/52

(879/EE)

STATE OF SOUTH DAKOTA)
) SS.
COUNTY OF Brookings)

On this 2nd day of January, 1987, before me personally appeared J.C. McIntyre and P.J. Brod, to me personally known, who being by me duly sworn say that they are the President and Asst. Secretary, respectively, of Dakota, Minnesota & Eastern Railroad Corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and they acknowledged that the execution of the foregoing instrument was the free act and deed of said corporation.

Lisa L. Rasmussen
Notary Public

My commission expires:

October 16, 1994

(879/EE)